

**SCOTTSDALE TOURISM DEVELOPMENT COMMISSION  
CITY OF SCOTTSDALE  
PINNACLE CONFERENCE ROOM  
7575 EAST MAIN STREET  
SCOTTSDALE, ARIZONA  
APRIL 18, 2006  
MINUTES**

**MEMBERS PRESENT:**

Ned Sickle, Chairman  
John Holdsworth, Vice-Chairman  
Margaret Dunn, Commissioner  
Sally Shaffer, Commissioner

**ABSENT:** Jerry Gleason, Commissioner  
Kiaran MacDonald, Commissioner  
Gordon Zuckerman, Commissioner

**STAFF:** Kathy O'Connor, Tourism Development Manager  
Kathy Montalvo, Economic Vitality Department  
Lee Guillory, Finance Manager  
Craig Clifford, Chief Financial Officer  
Bob Cafarella, Preservation Director  
Roger Klinger, Assistant City Manager

**OTHERS PRESENT FOR ALL OR PART OF THE MEETING:**

Councilman Wayne Ecton  
Brent DeRaad  
Tom Silverman  
Carla  
Mitch Nichols  
Rachael Sacco

1. **CALL TO ORDER**

Chairman Sickle called the regular meeting of the Scottsdale Tourism Development Commission to order at 8:04 a.m.

2. **ROLL CALL**

A formal roll call confirmed members present as stated above.

3. **APPROVAL OF MARCH 21, 2006 MINUTES**

**VICE CHAIRMAN HOLDSWORTH MOVED TO APPROVE THE MEETING MINUTES OF THE MARCH 21, 2006. SECONDED BY COMMISSIONER SHAFFER, THE MOTION CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).**

4. **BED TAX PROFORMA**

Ms. O'Connor noted no changes to the pro forma as presented at the March meeting. Current projections for FY 05/06 reflect a surplus of \$300,000 accruing to the carryover balance.

Mr. Clifford noted a 9% increase in March 2006 figures over March of 2005.

In response to inquiry by Chairman Sickie regarding the proposed budget for next year, Mr. Clifford explained that the proposed 14% increase is over the budget as opposed to the actuals. Mr. Clifford noted that planning was done very conservatively based upon the revenues to ensure that the expenditure budget remains within available revenues.

Ms. O'Connor noted that the proposed 14% increase is based upon a 9% increase in the current year and an additional 5% increase in next year's budget.

5. **MONTHLY UPDATES**

**Bed-tax Staff Report (Attachment 3)**

Ms. O'Connor explained that the 4% increase noted for the current month is the result of a resort's untimely report. It is presumed that the difference will be reflected in next month's report, which will therefore be disproportionately high. Despite the numbers reflected in the report, a 13% year-to-date increase prevails, along with a 13% increase in hotel/motel tax; retail 10%, and restaurant's are up 10% year-to-date.

**Smith Travel Research Lodging Report (Attachment 4)**

Ms. O'Connor noted that this report includes selected hotels in the market area as well as non-bed tax contributing hotels. Year-to-date occupancy rates through February 2006 are up 2.6 percent; an increase of 1.2 percent over the previous year, reflecting continued growth. Room rates through February 2006 reflect an 11% increase. Rev par is up nearly 14%.

## **Projects Status**

Referring to the Desert Discovery Center (DDC), Ms. O'Connor recalled that the Commission recommended City Council approval of funding for the updated feasibility study. A complete report completed by the consultants is included in the Commissioner's packets. The report was presented to the Desert Discovery Center Planning Committee and was accepted last week.

Ms. O'Connor identified three differentiating elements contained in the current study in comparison to the original study. The differences were driven by the fact that the Gateway, which is the public access area, had been planned and the question of the proximity of the Desert Discovery Center placement in relation to the Gateway became a primary element. The DDC Planning Committee determined that the integration of these two facilities was advantageous for many different reasons, which are outlined in the report. An additional contributing factor to the study parameters included the continued development around the Desert Discovery site and the Preserve itself. The DDC Planning Committee also determined that the focus, unlike the previous study, should be on the experience, the outdoors and the Preserve itself.

In response to a request by Chairman Sickles, Mr. Nichols explained that the desert concierge concept is designed to get the visitor out and have great experiences in the Preserve. The concept includes mountain bike rentals, equestrian activity, rental packs, picnic lunches, and a variety of downloadable tour experiences.

Chairman Sickles requested discussion regarding next steps in terms of raising funds. Mr. Silverman reported receipt of calls from people who want to get involved and possibly donate funds. He stressed the urgency in moving forward as quickly as possible upon approval from City Council. He elaborated that interested parties are looking for a joint partnership between the City and the private sector.

Mr. Cafarella identified that the Desert Discovery Center is a citizen-driven project while the public gateway is more the public side of the project. Mr. Cafarella suggested that it would be advantageous to hold a joint meeting between the Tourism Development Commission and the Preserve Commission, where those two citizen bodies can devise a game plan as to next steps that could be brought forward to City Council.

Vice-Chairman Holdsworth asked if the \$15.4 million budget is realistic. Mr. Nichols opined that the proposed budget does address current costs. He noted attempts to be conservative in those costs as well as built in contingencies contained in those costs. The factor that plays heavily into the current noted costs relates to the event that actual development is significantly delayed. He

also noted that some of the costs of the DDC have been moderated in the proposed joint venture with the Gateway.

Carla also noted the unknown factor of the additional funds required to establish an operating endowment, which is expected to be raised as part of this campaign.

Vice-Chairman Holdsworth expressed support and favor for the project, requesting confirmation that the proposed budget is realistically attainable in order to prevent the project from failing due to under-funding. A lengthy discussion regarding the anticipated contribution of private and City funds ensued.

Ms. O'Connor identified that one issue surrounds who will take the first step, suggesting that if the Commission is favorably disposed, taking the initial step forward will be an indication of at least one element of support for the project. Mr. Silverman opined that a favorable recommendation from the Tourism Development Commission to City Council will lend great support to the project.

Chairman Sickle requested an explanation regarding the analytics that underlie the assumption that twice as many people will visit the Desert Discovery Center than currently visit Taliesin West. Mr. Nichols explained that the nature experience, the diversity of the desert concierges opportunity teamed with orientation theatres and exhibits is a destination experience that speaks to a much broader theme and visitor base while Taliesin West's theme speaks to a more narrow market.

Upon inquiry by Chairman Sickle, discussion ensued regarding the sales and marketing standpoint of the project. Mr. Nichols explained that the marketing engine for this project is envisioned as a mix of promotional elements including the broader CVB, the broader resort environment and the concierge integration.

In response to a request by Commissioner Dunn, Carla addressed issues relative to the proposed operating endowment function and campaign.

Upon further questions by Commissioner Dunn regarding the status of the operational endowment moving forward, Mr. Nichols explained that the current pro forma assumes no endowment, per se. The pro forma makes estimates of potential achievement in terms of gifts, donations, memberships and essentially has contributed income between \$500,000 to \$600,000 a year, which would cover any operating deficit. The purpose of this kind of endowment would be a cushion in the event that those contributing income estimates were not achieved.

Commissioner Dunn expressed concerns regarding the ensured provision of ample security in order to protect the Preserve, especially in the case of anticipated events in the amphitheatre. Mr. Cafarella acknowledged that a great

deal of work is still be done in order to address detailed questions, and identified that an important element of holding a joint Commission meeting is perhaps to identify some of the financial questions as well as scope issues with the facility itself.

Mr. Cafarella articulated out that the DDC is not intended to duplicate or replace events currently provided by resorts or hotels, but will instead be reserved for more strategic and unique opportunities that fit with the Preserve theme. In response, Vice-Chairman Holdsworth expressed that is extremely important for the community in general that infrastructure continue to be constructed that provides alternatives to current venues.

In response to comments by Commissioner Dunn regarding the event income numbers reflected in the pro forma, Ms. O'Connor explained that an operational budget was requested in the scope of work. Ms. O'Connor also noted that a big part of the unknown factor in the equation depends upon who the governing/operational entity will be. Although the study answers some of the questions, as the project moves forward there are clearly more details that need to be discussed. Mr. Nichols concurred, and identified that the next steps in sequence are increased understanding from the fundraising standpoint, decisions in regard to the organizational body that will operate the facility on a day-to-day basis and finally, design refinement.

Chairman Sickie confirmed that staff's recommended next step is a joint meeting with the Preserve Commission. Ms. O'Connor volunteered to provide Commissioners with proposed meeting dates.

#### 6. **PROPOSITION 402, MAY 16, 2006 ELECTION**

Mr. Clifford explained that this item was brought forward to City Council for consideration and placed on the Spring ballot. The voters of Arizona approved a constitutional amendment in 1979-80 which placed an overall cap on expenditures of cities and towns. The cap was established based upon 1980 budgets and is adjusted annually for population change, growth and a price deflator. Aside from that adjustment, the only other adjustment for that spending cap requires that cities and towns go to the voters for approval for adjustments.

Mr. Clifford elaborated that some of the things driving the City's current situation include the fact that Scottsdale voters approved a public safety tax incremental change in 2004, which is bringing in additional revenues to the City and City Council responded with proposing to add up to 150 additional police officers since 2004, driving City expenditures up. The revenue exists to pay for these added expenses; however, the expenditure cap has not been adjusted to accommodate the changes. Mr. Clifford also noted a peak in capital projects including the Senior Center, the Aquatic Center, the CAP Basin Park, the and Chaparral Water Treatment Center. While voters again approved authorization

for general obligation bonds in 2000 for many of the undergoing projects in Scottsdale, several facilities are coming on-line near the same time line, which is spiking the operational expenditures.

Additionally, in 1982, Scottsdale brought forward an alternative that the voters approved which was a capital outlay exclusion from this limit. As a result, the capital budget was removed from the mix as far as compliance with this initiative. With the approval of that exclusion, Scottsdale was allowed to live within this limit for many years without going back to the voters for an increase in the spending cap. Mr. Clifford cited that the language in 1982 excluded construction and land acquisitions but it did not exclude capital equipment, which in current times includes technology and communications equipment. Millions of dollars are currently being spent on police and fire communications as well as millions of dollars on IT equipment.

Mr. Clifford explained that this proposal is asking the voters to approve an adjustment to the spending limit to allow the City to spend existing revenues. This initiative does not raise any new taxes. In the event the spending limit is not adjusted, the negative incentive that is built into this process results in the State withholding Scottsdale's portion of State income tax revenue sharing. Scottsdale currently receives approximately \$21 million in State shared income taxes. If the money is withheld by the State, it would go be redistributed to other cities and towns in the State. In effect, Scottsdale resident income taxes would be going to pay for services in other cities and towns.

Mr. Clifford reported that the only other way around this issue is to make drastic cuts to Scottsdale's operating budget. The ballot pamphlets should have been mailed to all registered voters in Scottsdale last week.

Commissioner Dunn expressed great concerns about getting the correct message out to the citizens of Scottsdale that will enable people to make an educated decision on how to vote on this proposition. Mr. Clifford reported addressing the issue through many communications with newspapers, a Q & A section on the website, a publicity pamphlet, and meetings with all of Scottsdale's Boards and Commissions.

Councilman Ecton mentioned that many people do not pay attention to the information that is made available and opined that as much education as possible needs to be done by word of mouth.

Vice-Chairman Holdsworth asked if there are any specific projects at this point that would be at risk of potential budget reductions if this proposition were to fail. Mr. Clifford explained that all of the City's operating budget, including the contractual expenses for tourism, marketing and development would be at risk.

Mr. Clifford addressed restrictions on revenues that prevent the ability to shift money as well as the services likely to be affected by budget cuts, which are those services that go directly to the quality of life and the direct community amenities such as cultural, recreation, and libraries.

Vice-Chairman Holdsworth asked specifically if the CVB's budget is at risk in this environment because it would be considered quality-of-life services. Mr. Clifford affirmed that such would be the case.

Councilman Ecton noted various amenities throughout the City that could potentially be affected if the proposition is not approved; including park hours, Senior Center hours, preventative maintenance, awards and grants. Councilman Ecton reiterated points noted by Mr. Clifford and cautioned that the impacts could be tremendous.

In response to inquiry by Chairman Sickles, Ms. Sacco acknowledged that this topic is an item on the next CVB Executive Committee meeting agenda. The CVB's role will be primarily education and working to get the information to the public through others.

## **7. DESERT DISCOVERY CENTER FEASIBILITY FINAL REPORT**

### **DESERT DISCOVERY CENTER DISCUSSION**

Chairman Sickles presented questions related to the funding side of the project. Carla confirmed that the plan includes a type of feasibility study with the additional plan of reviewing other options in the event that the anticipated donors opt not to follow through.

Commissioner Shaffer requested clarification regarding the anticipated financial commitment of \$7.5 million from the City. Mr. Clifford explained that there is a possibility of generating a portion of that money, depending upon whether the money is financed. He acknowledged the possibility of either bed tax or further Preserve tax to help fund the project, but cited the unknown factors of how the public/private partnership will evolve and how much cash will be raised versus debt financing. Mr. Clifford explained that the amount of money that is allocated to the project on the pro forma annually, will allow the City to issue debt up to \$7.5 million dollars. He opined that the final scenario was dependant upon fund raising and contributions.

Vice-Chairman Holdsworth expressed favor for the project and the additional venue. He opined that the Commission should take a proactive stance with regard to this project.

**VICE-CHAIRMAN MOVED TO GRANT THE REQUEST FOR \$300,000 IN DEBT FUNDING FROM THE BED TAX, SUBJECT TO THE PROJECT**

**COMING THROUGH TO A SATISFACTORY CONCLUSION. SECONDED BY COMMISSIONER DUNN.**

In response to a question by Chairman Sickie regarding the criteria, Ms. O'Connor opined that the project is clearly one of the single most differentiating factors that the Scottsdale community has to offer as a tourism driver. She elaborated that an additional positive aspect of the discussion is that the Commission is beginning to look at a variety of factors that are identifying and supporting true tourism drivers as opposed to projects. Ms. Sacco noted that the CVB strongly concurs.

Ms. O'Connor asked whether the Commission wanted to designate a cap or consider additional funding. Noting the awkward financial position surrounding this project, Mr. Clifford suggested that the Commission meet with Preserve Commission in an effort to determine whether both Commissions are favorable to the project and favorable to a recommendation to use some of their funds towards that purpose. He acknowledged that the Tourism Development Commission can refine the actual structure of the committed funding at a later date.

Ms. O'Connor summarized the Commission's stated objective of indicating willingness to participate in the project at this point in time, with a contribution of not less than \$3 million. Mr. Clifford explained that the proposed amount of funds can be carried in the budget, but the issuance of debt will remain contingent upon the project moving forward. Chairman Sickie expressed support for the contingency, noting concerns of over committing the Commission in terms of capital expenditures that limits flexibility on an annual basis. Mr. Clifford recommended that the monies be earmarked as a capital project commitment. In the event the project does not move forward, the funds can be returned to the Commission.

**VICE-CHAIRMAN HOLDSWORTH AMENDED THE MOTION: TO ALLOCATE NOT LESS THAN \$3 MILLION CONTINGENT UPON THE SUCCESSFUL COMMENCEMENT OF THE DESERT DISCOVERY CENTER PROJECT. THE FUNDS ARE TO BE REFLECTED IN THE PROFORMA AT \$300,000 A YEAR, ENABLING THAT THE MONEY IS EARMARKED AND SET ASIDE. SECONDED BY COMMISSIONER DUNN, THE MOTION CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).**

**8. PROPOSED BED-TAX CAPITAL PROJECTS**

Ms. O'Connor summarized that the Commission previously recommended bed tax funding for the Downtown Western Museum and the multi-purpose exhibit hall at WestWorld. Neither of those two projects have been initiated as of yet and the money for those projects has not been expended.



The Downtown Western Museum currently obligates a total of \$3 million from the bed tax; reflected as a \$300,000 annual expenditure for purposes of the pro forma with an additional \$3.5 million from the City for the construction of that project. The consultants recently brought forth a budget of \$34.3 million, of which \$5 million is recommended as an endowment. The museum project will likely not move forward in any substantial form for at least 12 months because the private-sector group involved in the fundraising has estimated that it will take approximately 12 months to determine if the initial \$350,000 funds can be raised in order to take the first steps.

The multi-purpose exhibit hall at WestWorld is also a \$300,000 annual expenditure from the bed tax.

Ms. O'Connor noted that the two projects that the Commission has yet to consider are proposed funding for WestWorld facility improvements and the acquisition of the State land, primarily for event parking and the proposed Desert Discovery Center. The Commission is currently being asked to consider bed tax funding for these projects. A funding alternative scenario and a capital project evaluation sheet are included in Commissioner packets.

Ms. O'Connor noted that there are likely a couple of elements that the Commission may want to consider in discussing these two projects; specifically the ability of the project to differentiate the Scottsdale destination from other competitive destinations and whether the project is a tourism driver.

Mr. Klinger reported that \$95 million in improvements have recently gone into WestWorld, much of which was expended in land acquisition that supports parking for events. Additional improvements include the large tents and parking areas, arena improvements, and a show office. Mr. Klinger referenced several positive impacts as a result of the new improvements.

Vice-Chairman Holdsworth opined that the improvements at WestWorld are terrific and expressed favor in support of WestWorld. He expressed concern about the direction moving forward and queried the amount of funds that should be contributed. He specifically cited concerns that another move is being made without obtaining clarity on the remaining unresolved issues and requested clarification on the status of the noted projects. He highlighted the additional projects the Commission is being asked to support, in addition to the unknown capital requirements that may be included in the final recommendations of the five-year strategic plan review for the City and wondered if the Commission is not making too many commitments too quickly.

Mr. Klinger explained that the improvements that can be done in the future are difficult to determine until the revenue sources are identified to cover the \$95 million borrowed for improvements to date.

Ms. O'Connor encouraged the Commission to discuss the criteria and whether or not either or both of the proposed projects meet the criteria.

Mr. Clifford noted that the pro forma provided to the Commission last month was prepared as a hypothetical example (not a recommendation) to show that the conservative revenue forecast for bed tax dollars could support additional funding for capital projects above and beyond the money that is allocated for convention and tourism promotion and visitor research. City Code sections allow that after funds are allocated for those purposes, any balance shall be allocated to the development of visitor related public projects.

Mr. Clifford reiterated points relative to the City's purchase of the State land adjoining WestWorld and reported that there is no intent at this point to sell the adjoining properties to WestWorld.

Mr. Clifford stated that he would like to see a recommitment of the dollars allocated to WestWorld by the Commission, at the same amount or a greater amount, to help support the debt service expended for land, tent and facility improvements and currently resides on the City's books.

Mr. Clifford reiterated points previously stated regarding next year's revenue assumptions and the forecast of growth at an approximate 5% increase over the current year, which he opined is a very conservative estimate.

In response to a request for clarification by Ms. O'Connor, Mr. Clifford affirmed that he is requesting a recommitment of dollars allocated to WestWorld for expenditure on current improvements rather than a facility that may occur far into the future. Mr. Clifford also noted that the tent purchased by the City is essentially a fabric multi-purpose facility. The current proposal includes in the installation of HVAC equipment and additional electrical for the tent, enabling the tent to function year-round and have the ability for other events in that facility.

Vice-Chairman Holdsworth acknowledged that one of his concerns stemmed from the lack of clarification identifying what the funding would be used for.

**VICE-CHAIRMAN HOLDSWORTH MOVED THAT IF THE PURPOSES FOR FUNDING ARE RECLASSIFIED, THE RECOMMENDATION FOR FUNDING BE INCREASED TO \$600,000. COMMISSIONER SHAFFER SECONDED THE MOTION.**

Ms. O'Connor requested clarification regarding the Commission's intention of a cap on the proposed amount of funds and a specific time period.

Mr. Clifford identified that the specific period is a 20-year time frame. He further explained that the debt will not specifically be guaranteed by bed tax funds, but will instead be an internal allocation of bed tax funds that will help pay for debt

already in existence. The debt is being guaranteed by the City's excise taxes. In the event that funds are unavailable to cover the Tourism Commission's contribution in a given year, the debt will still be paid by the City through alternate means.

In response to inquiry by Chairman Sickie, Mr. Klinger confirmed that the tent will remain in place year-round.

Ms. O'Connor clarified that with the improvements that will be made to the tent, the anticipated benefits to tourism would be the ability to market this facility on a year-round basis. The marketing criteria would be a key component.

**THE MOTION CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).**

9. **SCOTTSDALE CVB MID-YEAR REVIEW**

Rachel Sacco addressed the CVB mid-year review, included in Commissioner's packets. Highlights of Ms. Sacco's presentation included impressive gains in all areas.

10. **SCOTTSDALE CVB RESPONSE TO RFP**

Ms. O'Connor noted that the CVB's proposed scope of work and budget for FY 06/07 includes the areas the Commission requested that the CVB address. Ms. O'Connor opined that the CVB's response also has the flexibility to incorporate some of the elements of the 5-year strategic plan, upon finalization.

In response to inquiry by Vice-Chairman Holdsworth, Ms. O'Connor confirmed that \$500,000 is the amount of the contingency funds set aside for the 5-year strategic review.

**COMMISSIONER DUNN MOVED TO APPROVE THE FISCAL YEAR 06/07 DESTINATION MARKETING PLAN SUBMITTED BY THE CVB. COMMISSIONER SHAFFER SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).**

11. **FY 06/07 CVB PERFORMANCE MEASURES**

Ms. O'Connor identified that the performance measures are a very key contractual obligation of the agreement with the Scottsdale CVB. The purpose of the performance measures is to establish and monitor the levels and accomplishments of the CVB's activities. The performance measures are used to measure, by City standards, the actual delivery of the services of the contract report.

Ms. Hawkes distributed a list containing the current performance standards.

Ms. O'Connor noted that the proposed measurement (Item 9) includes an addition to generate X number of products and services leads and hotel leads for 10 rooms or fewer.

Referring to page 2, Ms. O'Connor clarified that the blue color indicates performance measures that have been eliminated and the pink color indicates performance measures that have been added. Ms. Sacco further clarified that some measurements have been substituted with measurements that better articulate the meaning of the program to the community.

Specifically addressing item 27, Ms. O'Connor noted that a proposed change includes elimination of the internet sessions that have been a criteria indicator for the past three years. Ms. Sacco noted that the previous indicator was: Generate a minimum of x-million internet sessions on the CVB website and splash pages, which the CVB felt was not a meaningful indicator. Mr. DeRaad noted that past measurements were more activity oriented than results oriented. As a result, numbers 31-34 are designed to reflect impacts that the CVB felt were more indicative of performance rather than activity. The CVB will continue to drive as much internet traffic as possible, but the new indicators look at actual performance. Ms. Sacco added that that several indicators are still reviewed as performance measures, but are not considered indicative of contract performance measures.

Chairman Sickie expressed a desire to see a conceptual linkage between the five-year strategic plan and how success is being measured. He recalled the goals of guests spending more money, having a great time and staying longer. Ms. Sacco noted that the CVB is just beginning to implement the strategic plan findings into the program of work. The need to benchmark what the particular programs will be in conjunction with some appropriate goals and objectives has been identified and will be done moving forward through the current fiscal year into the next. Ms. O'Connor pointed out that numbers 31-34 specifically speak to program funding that the Commission has recommended and approved for additional VICA advertising. Mr. DeRaad explained that the benchmarking information now available through VICA funding will reflect where the customers are coming from, how long they are staying, and how much money is spent during their visit.

In response to inquiries by Vice-Chairman Holdsworth regarding the generation of tourism drivers by non-hotel entities, Ms. Sacco explained that Convention Services is the CVB's avenue for reaching non-hotels.

A brief discussion ensued regarding CVB membership and education efforts.

**COMMISSIONER SHAFFER MOVED TO APPROVE THE PROPOSED PERFORMANCE MEASURES. SECONDED BY VICE-CHAIRMAN HOLDSWORTH, THE MOTION CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).**

12. **ITEMS FROM THE FLOOR**

Ms. O'Connor noted the presentation regarding the five-year strategic plan, scheduled for April 20th.

13. **PUBLIC COMMENTS**

None.

14. **ADJOURNMENT**

With no further business, being duly moved and seconded, the meeting adjourned at 10:22 a.m.

Respectfully submitted,  
A/V Tronics, Inc.